

M e m o r a n d u m

To: Panel Members Date: August 27, 2004

From: Diana Torres, Manager Analyst: C. Robinson

Subject: ONE-STEP AGREEMENT FOR **H.E.R.C. PRODUCTS INCORPORATED <100**

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition
- Legislative Priorities: Locating Into Or Expansion Within California
Moving To A High Performance Workplace
- Type of Industry: Services
- Repeat Contractor: No
- Contractor's Full-Time Employees
 - *Worldwide:* 80
 - *In California:* 20
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: \$124,800
- Substantial Contribution: \$0
- Total ETP Funding: \$124,800
- Total In-kind Contribution: \$88,040
 - *Trainee Wages Paid During Training:* \$88,040
 - *Other Contributions:* \$0
- Reimbursement Method: Fixed-Fee
- County(ies) Served: San Diego County

INTRODUCTION:

Founded in 1986, H.E.R.C. Products Incorporated (HERC) is located in Portsmouth, Virginia. In late 2003, the Company opened an office in National City, California. HERC provides chemical cleaning services on water pipe systems, marine collection-holding-transfer (CHT) systems, waste water systems, marine and land-based tank/boilers, cooling towers/HVAC systems, and other water-based/industrial chemical process systems. The Company uses a proprietary line of specialty chemical products/cleaning processes to remove scale and corrosion from these surfaces. HERC serves customers located in San Diego's shipyards and currently employs 20 full-time employees in its National City facility; the site for the proposed ETP-funded training. The Company's expansion plans include hiring 30 additional employees by the end of 2004 and 30 more by the end of 2005, which are included in the total requested for training (80).

HERC competes with out-of-state companies for the contract based services it provides to the United States Navy and other private corporations. Therefore, the Company qualifies for standard ETP funding as a company facing out-of-state competition, under Title 22, California Code of Regulations, Section 4416(a)(3,4). HERC proposes to retrain 80 frontline workers in order to expand its California-based business and transition to a high performance workplace. This project was brought to the Panel through the marketing efforts of the California Manufacturers Technology Association.

MEETING ETP GOALS AND OBJECTIVES:

HERC proposes training that will further the following ETP goals and objectives:

- 1) HERC is expanding its market position in southern California by opening its National City facility and hiring up to 80 fulltime frontline workers. Therefore, this project meets ETP's legislative mandate to support the State's economic growth by funding projects for companies expanding within the state.
- 2) The proposed training for HERC is designed to enhance the skills of its frontline workers in order to prepare them for employment in a high performance workplace. Therefore, the proposed training supports ETP legislative funding priority to support companies moving to a high performance workplace.

TRAINING PLAN TABLE:

Grp/Trainee Type	Types Of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 90 Days
Job Number 1 Retrainee	MENU: Continuous Improvement Commercial Skills Hazardous Materials Computer Skills Literacy Skills	80	45 - 110	N/A	\$1,560	*\$11.61 - \$17.20
					<u>Prevalent Hourly Wage</u> \$14.50	
					<u>Average Cost Per Trainee</u> \$1,560	
<u>Health Benefits Used To Meet ETP Minimum Wage:</u> Health Benefits of at least \$.11 per hour will be applied to the base wage in order to meet the ETP minimum hourly wage of \$11.61 for San Diego County.					<u>Turnover Rate</u> 5%	<u>% Of Mgrs & Supervisors To Be Trained:</u> -0-
<u>Other Employee Benefits:</u> In addition to health and dental, HERC offers 401K as a fringe benefit.						

COMMENTS / ISSUES:

Frontline Workers/Managers/Supervisors

All 80 retrainees in the training plan will meet the Panel definition of frontline workers under Title 22 California Code of Regulations, Section 4400(ee).

Production During Training

The proposed Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

Training Reimbursement Rate for Companies with less than 100 Employees

Currently, HERC has eighty full time employees worldwide (twenty at its California location). Therefore, HERC is eligible for an ETP reimbursement rate of \$20 per hour versus \$13 per hour for companies with more than 100 employees. HERC has been informed by ETP staff that the actual number of full-time employees will be considered in the future to determine the hourly reimbursement rate if the Company requests an Amendment or a future Agreement.

PROPOSED ACTION:

Staff recommends that the Panel approve this Agreement if funding is available and the project meets the Panel priorities.

NARRATIVE:

According to Company representatives, HERC began expanding into southern California's shipyard market in 2003 and, by early 2004, established its National City office in response to demand for experienced and competent CHT chemical cleaning services. HERC uses its proprietary line of specialty chemical products and cleaning processes to remove scale and corrosion from pipeline systems, water systems, and other tank surfaces. United States Navy ships returning to San Diego from long-term deployments in the Middle East and the Coast Guard are the main sources of its revenue. HERC also services municipal, industrial, and commercial customers directly or through marketing alliances, such as the one HERC currently has with Continental Maritime of San Diego, Inc. (CMSD), a subsidiary of Northrup Grumman.

HERC officials report that the Company's immediate goal is growth within California by developing and expanding its geographical sales area in the San Diego region. As a result, the Company recently relocated into a facility that would accommodate at least sixty additional frontline workers who will be hired over the next several months. These employees will be added as needed to meet the Company's current and anticipated contracts in San Diego with CMSD and other customers. Once the San Diego location becomes established, future plans include establishment of an additional facility in downtown Los Angeles and development of sites in other areas within California.

The proposed training for HERC's frontline employees will address Company goals of expansion within California and movement toward becoming a high performance workplace.

Up to eighty HERC employees will participate in the proposed training plan. These retrainees will receive training in a menu format as follows.

Continuous Improvement

Because customer's expectations for quality service have increased, HERC must identify improvement opportunities within its operations. Therefore, all retrainees included in the training plan will need to learn how to function in a team environment. The proposed training will focus on quality concepts, team building/problem solving, and decision-making skills to increase its quality of service and facilitate HERC's move to a high performance workplace.

NARRATIVE: (continued)

Upon completion of this training, retrainees will identify areas within HERC's operations that need improvement while working together as teams.

Commercial Skills

Tank cleaning and technician class employment prospects usually come to HERC without any skills to adapt to the marine environment. Although HERC provides training in basic cleaning techniques, more advanced training is necessary to ensure the Company's safe and efficient operation. This training is focused on teaching tank cleaners and technicians about the combination of chemicals used to treat tanks and pipes and how these chemicals affect the surfaces they contact. They will also learn the various ship classifications and systems in which they will be performing cleaning services. The retrainees will also be trained in the best practices in ship repair and tank/pipe cleaning. They will also learn the key points about naval and private shipyards so they develop an understanding of proper procedures and protocol in this environment. Company representatives state that this training will ensure that HERC's employees are providing the best quality of service possible to its customers.

Hazardous Materials (HazMat)

According to Company representatives, only shippers and transporters of materials classified as hazardous by the federal government are mandated to deliver hazmat training to their employees. However, HERC is not required by the federal government to provide HazMat training to its employees. Its proposed training plan includes HazMat training for anyone who may come into contact with lead, asbestos, polychlorinated biphenyls, synthetic fire resistant hydraulic fluid, and various chemicals on ships or other industrial areas. As an overview relating to environmental protection, the Company plans on training all of its employees on methods to identify hazmat materials to allow them to work safely around these chemicals.

Computer Skills

The Company states that HERC employees in lead positions need basic, intermediate and advanced computer skills to perform their job duties more effectively. Currently, the Company has found that these individuals do not have the computer skills needed to perform their assigned duties. The proposed training in Microsoft Word, Excel, Access, and Power Point will allow leads to track HERC's unit costs more closely for each specific job performed and use these programs to help organize, simplify, and distribute cost information with their projects.

Literacy Skills

According to HERC, many tank cleaners and technicians have limited math ability. Math skills are crucial for HERC employees to ensure that they understand atmosphere tank readings and know how to formulate the correct amount of chemicals needed for cleaning purposes. HERC

NARRATIVE: (continued)

tank cleaners and technicians will be given a math skills assessment to determine if basic mathematics training is necessary. For those trainees that need basic math, the related training will not exceed 45 percent of their total job-specific skills training.

Supplemental Nature of Training

State law requires that ETP funds be used to supplement, rather than displace, funds available through existing programs conducted by employers and government-funded programs. HERC has never had a formal training program to provide training in a structured manner to its employees. Currently, the Company offers new employee orientation and general safety training relating to basic use of cleaning equipment. Most of the training has been provided on an informal basis as new employees are hired by HERC. Expenditures for Company-funded employee training during the past few months (2004) were approximately \$24,000. The Company plans on funding and continuing the aforementioned training at its own expense.

Company representatives state that the proposed training is different from that provided in the past. The proposed curriculum focuses on improving the skill level of HERC's frontline workers by introducing training that will allow them to provide quality services to customers. Working in a new team environment, employees will be able to address the many tank cleaning needs of a variety of different types of ship classifications. Training in structured methods of pipe and tank system analysis and problem solving techniques will assist HERC in managing risk, while performing efficiently and effectively during the service process. The proposed training plan is designed to meet the pressures from HERC's customers for additional well-trained employees thus meeting the Company goals to expand and become a high performance workplace.

SUBCONTRACTORS:

Continental Maritime San Diego, Inc., located in San Diego, California in an amount to be determined for a portion of Class/lab training.

THIRD PARTY SERVICES:

California Manufacturers and Technology Association assisted with the application and helped prepare the training plan, curriculum, and the retraining certification at no cost.

H.E.R.C. PRODUCTS INCORPORATED

MENU CURRICULUM

Hours
Class/lab
45-110

Trainees will receive any of the following:

Commercial Skills

- Advanced Product Knowledge
- Ship Compartment Layout
- Advanced Tank Cleaning Techniques
- Advanced Atmosphere Testing
- Blueprints Use in Tank Cleaning
- Dry Dock Operations
- Private Shipyard Operations
- Best Practices in Ship Repair
- Best practices in Tank Cleaning

Continuous Improvement

- Quality Concepts
- Team Building/Problem Solving
- Decision Making

Computer Skills

- Beginning/Intermediate/Advanced Word
- Excel,
- Access
- Power Point

Hazardous Materials (HazMat)

- HazMat Chemical Cleaning/Handling
- HazMat Waste Cleaning

Literacy Skills (not to exceed 45% of trainee's job-specific training hours)

- Basic math